

## Message Text

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INFO AMEMBASSY BRUSSELS

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C O N F I D E N T I A L KINSHASA 1228

LIMDIS

E.O. 11652: N/A

TAGS: EFIN, CG

SUBJECT: ZAIRE'S DETERIORATING FINANCIAL SITUATION

REF: KINSHASA 770

1. FOLLOWING ISSUANCE CENTRAL BANK MEASURES TO REDUCE FOREIGN EXCHANGE EXPENDITURES, COMMERICAL BANKS FIND THEMSELVES IN TIGHT CORNER WITH POTENTIALLY THROUBLESOME CONSEQUENCES. THIS, COUPLED WITH GROWING LACK OF CONFIDENCE IN ZAIRE WITHIN FOREIGN BANKING CIRCLES, PAINTS EVER BLEAKER PICTURE OF ZAIRE'S SHORT- AND MEDIUM-TERM FINANCIAL FUTURE.

2. FOLLOWING INITIAL ANNOUNCEMENT BY CENTRAL BANK OF MEASURES INTENDED TO DRASTICALLY REDUCE FOREIGN EXCHANGE OUTFLOW (SEE REFTTEL), COMMERCIAL BANKS CEASED ALTOGETHER ISSUING SIGHT LETTERS OF CREDIT FOR IMPORTS. THEIR POSITION WAS THAT BEING LEFT WITH TOTAL DISCRETION AS TO WHAT WERE MOST ESSENTIAL PRIORITIES FOR REDUCED CREDIT AVAILABLE AMOUNTED TO BEING GIVEN ENOUGH ROPE TO HANG TEMSELVES; SUCH DECISIONS WERE PROPERLY THE GOVERNMENT'S.

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3. ON JANUARY 29, CENTRAL BANK ISSUED IMPLEMENTING

INSTRUCTIONS WHICH CONTAINED LIST OF ITEMS EXEMPTED FROM RESTRICTIONS -- A MOVE WHICH COULD GO LONG WAY TOWARD SOFTENING DOMESTIC IMPACT OF INITIAL MOVE AND WHICH SHOULD HAVE SOMEWHAT CLARIFIED BANKS' POSITION. ITEMS EXEMPTED ENTIRELY FROM RESTRICTIONS ARE A) MOST FOOD PRODUCTS, B) PHARMACEUTICALS, C) INPUTS TO VARIOUS LOCAL INDUSTRIES AND D) A GROUP OF MISCELLANEOUS ITEMS RANGING FROM VARIOUS PAPER PRODUCTS TO EYEGLASSES. BANKERS NOW TALK OF MORE FLEXIBLE APPROACH TO GRANTING LETTERS OF CREDIT AND SEEK TO AVOID SITUATION OF OUT-AND-OUT CONFRONTATION WITH CENTRAL BANK. NEVERTHELESS, WE UNDERSTAND LITTLE MONEY ACTUALLY MOVING.

4. FOR THIS REASON, CENTRAL BANK GOVERNOR SAMBWA CALLED IN COMMERCIAL BANKERS SHORTLY BEFORE PRESIDENT MOBUTU'S FEBRUARY 1 SPEECH AND TOLD THEM THAT THE BOSS WAS ANGRY. WE UNDERSTAND A NON-ZAIRIAN CLOSE TO MOBUTU ADVISED PRESIDENT IN MEANTIME NOT RPT NOT BE TOO HARD ON BANKS. IN FACT, SWIPE HE TOOK AT BANKERS IN SPEECH WAS MILD. SINCE THEN WE HAVE NOT PERCEIVED ANY SIGNIFICANT MOVEMENT ON BANKER' PART, OTHER THAN INSISTING THEY NOW PLAYING GAME ACCORDING NEW RULES, I.E. VERY CAUTIOUSLY.

5. COMMENT: WITH FEW HARD FACTS AVAILABLE TO INDICATE HOW GOZ THINKING OR WHAT IT PLANNING, WE STILL HAVE VAGUE APPREHENSION THAT BANKS MIGHT BE IN PROCESS OF MISSING THE LAST BOAT. IF GOZ PERCEIVED BANKS' ATTITUDE AS RECALCITRANT OR BELLIGERENT A WEEK AGO, SEMANTIC CHANGES IN THEIR PUBLIC LINE WILL DO LITTLE TO ALTER THAT IMAGE. THUS, HOWEVER JUSTIFIED THEIR CAUTIOUS ATTITUDE MAY BE FROM OWN POINT OF VIEW, IT COULD BE THEIR UNDOING IN EYES OF GOZ. IN LONG RUN, THIS COULD BE AS BAD FOR GOZ AS FOR BANKS.

6. ON OTHER HAND, REMAINDER THIS CABLE POINTS UP FACTORS WHICH INCREASINGLY PRECLUDE MORE ACTIVE COOPERATIVE BANK STANCE. END COMMENT.

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7. INDICATIONS OF DETERIORATING EXTERNAL CREDIT SITUATION:  
A. FOREIGN EXCHANGE CREDIT APPEARS TO BE DRYING UP DUE SEEMING CONVICTION OF FOREIGN BANKS THAT ZAIRE WILL NOT HAVE NECESSARY EXCHANGE TO COVER EVEN NORMAL IMPORTS. WE KNOW THAT SEVERAL LOCAL BANKS HAVE RECEIVED NOTIFICATION FROM FOREIGN CORRESPONDANT BANKS INDICATING UNWILLINGNESS TO OPEN FURTHER LINES OF

CREDIT. EVEN FNCB HERE RECEIVED CABLE FROM BRUSSELS  
BRANCH EXPRESSING SIMILAR CONCERN, THOUGH NOT CUTTING  
THEM OFF.

B. BELGIAN SOURCES INDICATE SGB HAS CALLED A SERIES  
OF LINES OF CREDIT WITH GOZ MINISTRY OF FINANCE. WE  
UNAWARE WHETHER GOZ COMPLIED WITH CALL. NEVERTHELESS,  
IF KNOWLEDGE SUCH ACTIONS BECOMES WISESPREAD,  
IMITATION BY OTHERS COULD BE FAR MORE SERIOUS CONSEQUENCE  
THAN LOSS TO GOZ OF AMOUNTS DIRECTLY CONCERNED.

C. ATTITUDES EVIDENT SUBPARAGRAPHS (A) AND (B) ABOVE  
WILL NOT BE IMPROVED BY REPORTED REUTERS STORY, PASSED  
TO US BY BRITISH, THAT ZAIRE HAS DECLARED MORATORIUM  
ON REPAYMENT OF ALL OUTSTANDING DEBT. CENTRAL BANK  
SOURCES HOTLY DENY THERE ANY BASIS FOR SUCH ARTICLE,  
BUT DAMAGE OF SUCH PUBLICITY NOT EASILY UNDONE.  
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